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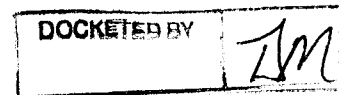
June 29, 2012

HAND DELIVERED

Steve Olea, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

JUN 29 2012



Re: *SWTC's Annual Equity Analysis Update;*
Decision No. 72030; Docket No. E-04100A-09-0496

Dear Mr.Olea:

In Decision No. 72030 dated December 10, 2010 (Finding of Fact No. 50, Third Ordering Paragraph at page10), the Commission instructed Southwest Transmission Cooperative, Inc. ("SWTC") to "continue to file annual equity analyses and forecasts on June 30th of each year." In compliance with that requirement, the purpose of this filing is to provide information concerning SWTC's equity building progress last year.

As mentioned in last year's report, SWTC has completed a 2011 Financial Forecast that supplants the 2005 Financial Forecast which had been used in prior reports on this subject. The equity projections and associated equity/asset and equity/total capitalization percentages associated with this 2011 forecast are shown in the attached schedule. In addition, the "Actuals 2011" column also reflects achieved results for the calendar year 2011.

As background, the 2011 Financial Forecast contains several major items that had not been anticipated in the 2005 Financial Forecast: (1) the current forecast reflects a rate increase that went into effect January 1, 2011 (Decision No. 72030); (2) because of the economic slowdown, SWTC's construction work plan was revised to reflect a much lower level of capital expenditures over the forecast period; (3) the 2005 Financial Forecast did not include a new 50 MW N-1 point-to-point contract with AEP CO; and (4) various cost saving measures that are expected positively to contribute to SWTC's net margins over the forecast horizon.

Steve Olea, Director
June 29, 2012
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Also, since the completion of the 2011 Financial Forecast, several other positive developments have occurred. Among them are: (1) the 40 MW point-to-point contract with AEPCO was increased another 50 MW for N-1 purposes for a total of 90 MW in 2011; (2) the Central Arizona Water Conservation District ("CAWCD") contracted with SWTC for scheduling and trading services which is providing additional, unanticipated other revenue; and (3) during 2011, the CAWCD also scheduled additional non-recurring, non-firm point-to-point service for five months which added more than \$500,000 of previously unanticipated revenues.

As a result, while the 2011 Financial Forecast had anticipated last year's equity as a percentage of total assets would be 8.79% and equity as a percentage of capitalization would be 9.21%, actual results were higher at 10.96% and 11.38%, respectively (Exhibit A, Actuals v. Forecast 2011 columns).

Those better than expected 2011 results, of course, will continue to affect the forecast on a going-forward basis. Should Staff have questions or need additional information concerning this filing, please contact me or Gary Pierson.

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:

Michael M. Grant

MMG/plp
15169-13/3075028

cc: Brian Bozzo, Compliance Section (delivered)
Gary Pierson

Original and 13 copies filed with Docket
Control this 29th day of June, 2012.

Southwest Transmission Cooperative, Inc.
2011 Financial Forecast

Balance Sheet

Liabilities

	Actuals 2011	Forecast: 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020									
Memberships 26	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Patronage Capital 27	\$9,438	\$9,398	\$9,398	\$9,398	\$9,398	\$9,398	\$9,398	\$9,398	\$9,398	\$9,398	\$9,398
Operating Margins Current and Prior Years 28	\$4,710	\$1,561	\$4,960	\$6,548	\$8,488	\$10,435	\$11,637	\$12,617	\$13,770	\$14,624	\$15,653
Non Operating Margins 29	\$294	\$1,512	\$1,763	\$1,983	\$2,164	\$2,350	\$2,597	\$2,851	\$3,113	\$3,382	\$3,660
Total Margins_Equities 30	\$14,443	\$12,471	\$16,121	\$17,931	\$20,051	\$22,184	\$23,633	\$24,867	\$26,282	\$27,405	\$28,712
LTD RUS 31	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LTD FFB 32	\$98,426	\$109,008	\$120,778	\$122,708	\$123,741	\$124,539	\$125,301	\$125,764	\$126,068	\$126,269	\$126,337
LTD Other 33	\$14,057	\$13,925	\$12,258	\$10,480	\$8,516	\$6,646	\$5,384	\$4,503	\$3,616	\$3,095	\$2,541
Total Long Term Debt 34	\$112,483	\$122,933	\$133,036	\$133,188	\$132,258	\$131,184	\$130,685	\$130,267	\$129,684	\$129,364	\$128,878
Accum Operating Provisions 35	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Non Current Liabilities 36	\$112,483	\$122,933	\$133,036	\$133,188	\$132,258	\$131,184	\$130,685	\$130,267	\$129,684	\$129,364	\$128,878
Notes Payable 37	\$0	\$1,525	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accts Payable 38	\$1,266	\$1,446	\$1,560	\$1,331	\$1,300	\$1,823	\$1,874	\$1,941	\$2,010	\$2,082	\$2,155
Taxes Accrued 39	\$1,010	\$1,069	\$983	\$1,098	\$1,274	\$1,342	\$1,356	\$1,364	\$1,371	\$1,376	\$1,381
Interest Accrued 40	\$1,428	\$285	\$253	\$216	\$175	\$137	\$114	\$102	\$90	\$88	\$87
Other Current Liabilities 41	\$621	\$873	\$873	\$873	\$873	\$873	\$873	\$873	\$873	\$873	\$873
Total Current Liabilities 42	\$4,325	\$5,198	\$3,669	\$3,518	\$3,622	\$4,175	\$4,217	\$4,280	\$4,344	\$4,419	\$4,496
Deferred Credits 43	\$484	\$1,247	\$1,247	\$1,247	\$1,247	\$1,247	\$1,247	\$1,247	\$1,247	\$1,247	\$1,247
Total Liabilities 44	\$131,735	\$141,849	\$154,073	\$155,883	\$157,178	\$158,790	\$159,781	\$160,661	\$161,557	\$162,435	\$163,332
Equity Percentage 45	10.96%	8.79%	10.46%	11.50%	12.76%	13.97%	14.79%	15.48%	16.27%	16.87%	17.58%
Equity as a Percent of Capitalization 46	11.38%	9.21%	10.81%	11.87%	13.16%	14.46%	15.31%	16.03%	16.85%	17.48%	18.22%

- Navajo - \$0.4 million

7. There is no customer that will be exempt from paying for unrecovered fixed costs. Some 1100 commercial and industrial customers will be exempt from the LFCR, but they will pay an increased share of fixed costs through modifications to the demand component of the bill.
8. There is a cost to implement any fixed cost recovery mechanism the commission approves, which includes outreach and education costs as well as implementation costs considering changes to the CIS. Adding an opt-out alternative to the LFCR does not materially increase those costs.
9. APS does not know with any certainty the revenues it would receive from full decoupling because that depends upon several variables including weather.

On a weather normalized basis, APS believes that it would realize more revenue from decoupling than the LFCR. See APS Exhibit 5. And as part of the Agreement, APS will report on an annual basis the amount of revenues it would have recovered under its originally-proposed full decoupling mechanism. This will better inform the Commission in the Company's next rate proceeding.

10. No. This would have been a material change to several signatories and thus would have been a material change to APS.
11. While APS does not agree with the specific cost to benefit ratio (which is based on national averages) as applied to our own plants (that value depends upon several factors, including location, population, etc.) the point of Section 11 was to support environmental compliance costs at levels beyond what customer payments are supporting.
12. No. APS still must pay its property taxes on the dates established by statute. The deferral is for accounting and ratemaking purposes only and has no effect on the actual schedule of property tax payments. By allowing the Company to defer the recording for accounting purposes portions of the property tax expense above Test Year levels, the accounting mechanism helps to sustain APS earnings levels during the required four-year stay out period of the Settlement at acceptable levels.
13. Anyone could participate, although it may be awkward to have both Utilities Division Staff members and the personal staff of individual Commissioners present during the same meetings given that Utilities Division Staff is charged with making an independent evaluation of any proposal, and the Commission will be the arbiter of the final product.

Paul Newman, Commissioner

June 29, 2012

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APS has no predetermined notion about what will or will not result, and- others are quite passionate about this subject, and their input is important. In the stakeholder process, as in the final proceeding, all ideas are open for discussion and consideration. However, the desires of APS customers in this matter will weigh heavily in the Company's final recommendation to the Commission.

14. It would, of course, depend on severity and duration of the weather event, and whether that event can so impact APS that the rates set in this case can no longer be considered just and reasonable. For that to happen, the event would have to materially impact the financial results expected under the terms of the agreement. It is unlikely that the event you described would cause APS's financial results to deviate so much from what it expected to earn under the Agreement as to trigger a force majeure issue although the Company will concede that anything is theoretically possible, however improbable.

I hope this has been responsive to your questions.

Sincerely,

A handwritten signature in cursive script, reading "Thomas L. Mumaw".

Thomas L. Mumaw

TLM/jlj

cc: All Parties of Record

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This 29th day of June, 2012 to:

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